

# STATE OF COLORADO

---

**DEPARTMENT OF PERSONNEL &  
GENERAL SUPPORT SERVICES  
DIVISION OF FINANCE AND PROCUREMENT  
OFFICE OF THE STATE CONTROLLER**

1525 Sherman Street, Suite 250  
Denver, Colorado 80203  
Phone (303) 866-3281  
FAX (303) 866-4233



Bill Owens  
Governor

Troy A. Eid.  
Executive Director

Arthur L. Barnhart  
State Controller

October 25, 2001

To the Citizens, Governor, and Legislators of the State of Colorado

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Colorado for the fiscal year ended June 30, 2001. This report is prepared by the Office of the State Controller and is submitted as required by Colorado Revised Statutes 24-30-204. The state controller is responsible for managing the finances and financial affairs of the state and is committed to sound financial management and governmental accountability.

We believe the financial statements are fairly presented in all material aspects. They are presented in a manner designed to set forth the financial position, results of operations, and changes in fund balances of the various fund types. All required disclosures have been included to assist the members of the General Assembly, the financial community, and the public in understanding the state's financial affairs.

The financial statements contained in the CAFR are prepared in conformity with generally accepted accounting principles applicable to government as prescribed by the Governmental Accounting Standards Board (GASB), and are audited by the state auditor of Colorado. In addition to the general purpose financial statements, the CAFR includes: combining financial statements that present information by fund category; certain narrative information that describes the individual fund categories; supporting schedules; and statistical tables that present financial, economic, and demographic data about the state.

The funds and entities included in the CAFR are those for which the state is financially accountable based on criteria for defining the financial reporting entity as prescribed by GASB. The primary government is the legal entity that comprises the funds and account groups of the state, its departments, agencies, and state funded institutions of higher education. It also includes certain university foundations that have been included with the institution that is financially accountable for the foundation.

The state's elected officials are financially accountable for legally separate entities that qualify as component units. Financial results of the state's component units are discretely presented in the financial statements. The following entities qualify as component units of the state.

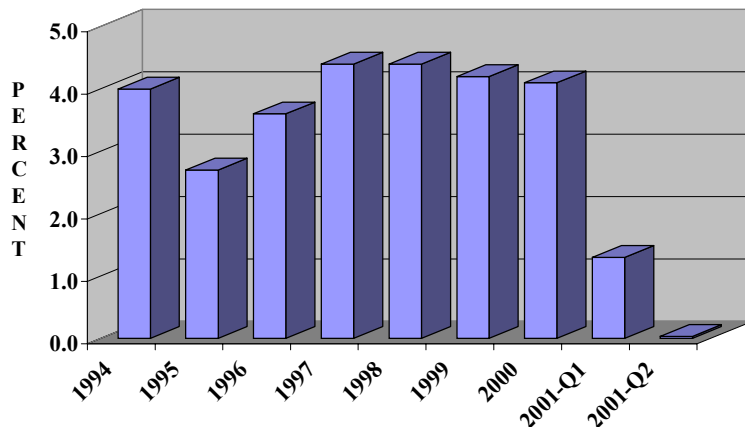
Denver Metropolitan Major League Baseball Stadium District  
University of Colorado Hospital Authority  
Colorado Water Resources and Power Development Authority  
Colorado Uninsurable Health Insurance Plan (also known as CoverColorado)

Additional information about these component units and other related entities is presented in this report in Note I-A in the notes to the financial statements. Audited financial reports are available from each of these entities.

## ECONOMIC CONDITION AND OUTLOOK

In order to carry out budget formulation, the Office of State Planning and Budgeting (OSPB) estimates state revenues. In preparing those revenue estimates, OSPB analyzes the national and state economic conditions. The following synopsis is largely based on OSPB's analysis in the Colorado Economic Perspective that is dated September 20, 2001.

**PERCENT CHANGE IN REAL GROSS  
DOMESTIC PRODUCT**



During the state Fiscal Year 2000-01, the national economy continued to grow – albeit at a significantly reduced pace. The near term direction of the economy was not clear at the time the September forecast was prepared. The U.S. Department of Commerce reported that real gross domestic product (GDP), the output of goods and services produced in the United States, increased at an annual rate of .3 percent in the second quarter of 2001. This followed a first

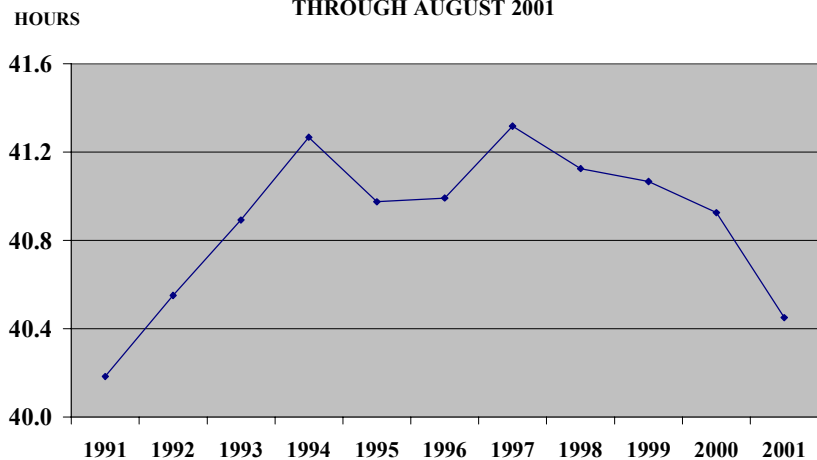
quarter increase in real GDP at an annual rate of 1.3 percent. While these amounts indicate a constricting economy, they do not qualify as a recession. However, these statistics do not reflect the impact of the September 11, 2001 terrorist's attacks on Washington and New York. Significant layoffs have occurred in the airline industry since that date, and hotels report layoffs and reduced work schedules due to occupancy rates near 50 percent. Thus, the travel and tourism industry will negatively impact GDP growth in the near future, and it is unclear the extent to which the general lack of certainty about the future will affect the overall economy.

The primary factors affecting the limited growth in GDP currently are the continued, but waning, strength of consumer spending, the precipitous drop in business investment, the clearing of inventories, and nine consecutive interest rate reductions by the Federal Reserve Board. Consumer spending increased at an annual rate of 2.5 percent in the second quarter after averaging 4.7

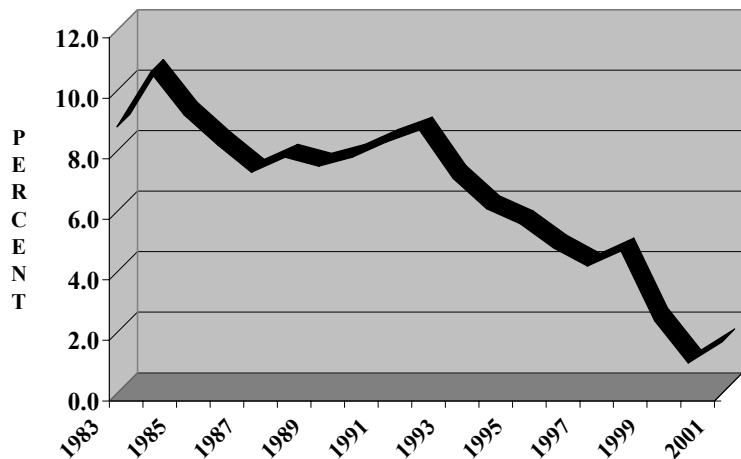
percent increases over the previous 15 quarters. Total domestic investment declined for the fourth quarter in a row, led by a 14.6 percent decline in the annual rate of business investment. Part of the growth in consumer spending was related to consumers purchasing existing inventories – those inventories declined \$27.1 billion and \$38.3 billion, in the first and second quarter, respectively. These inventory reductions negatively impacted current GDP growth, but they bode well for future growth as manufacturers may replenish those inventories to support future consumer purchases.

Productivity indicators also show positive but anemic growth. Business output per hour increased 2.2 percent in the second quarter after no increase in the first quarter. However, this measure is tempered by the fact that the amount of time on the job for production workers is falling after maintaining unusually high rates through most of the economic expansion. The reduction in weekly hours is consistent with a recession in the manufacturing sector, which has contracted for thirteen consecutive months. That contraction is driving the continuing increase in the U.S. unemployment rate. Unemployment surged to 4.9 percent in August 2001 in a nearly continuous climb from its 21-year low of 3.9 percent in September 2000.

**AVERAGE WEEKLY HOURS OF  
PRODUCTION WORKERS  
THROUGH AUGUST 2001**



**PERSONAL SAVINGS AS A PERCENT OF  
DISPOSABLE PERSONAL INCOME**



Personal savings has begun to reflect the decrease in consumer spending. It increased to 1.7 percent in 2001 (through August) after hitting a low of 1.0 percent in 2000. The upturn in savings is consistent with a decline in consumer confidence due to the highly publicized stock market woes and the general economic constriction. While this increase in the savings rate augurs well for the consumer's ability to participate in a future economic recovery, it also represents an untimely reduction in spending that is likely to exacerbate

the current economic downturn. In an effort to stimulate borrowing, spending, and the economy in general, the Federal Reserve has lowered interest rates nine consecutive times. The current federal funds rate of 2.5 percent is .2 percent below the current rate of inflation, bringing into question the Federal Reserve's ability to stimulate the economy by increasing liquidity.

Before the events of September 11, 2001, OSPB made the following predictions for the national economy in preparing its Colorado economic forecast.

- Due to the intrinsic soundness of the national economy, inflation-adjusted GDP growth is expected to be 1.6, 2.6, and 3.4 percent in 2001, 2002, 2003, respectively, before slowing to sustainable rates of 2.5 to 2.8 percent through 2006.
- The overall inflation rate is expected to rise to 3.1 percent in 2001, 2.3 percent in 2002, and 3.0 percent or less through 2006.
- Unemployment will increase to 5.2 percent in 2002 and recede to 4.9 percent by 2006. These rates are high compared to recent years, but they are low in a historical context and are often considered full employment.

In identifying the risks to the national economy and its forecast, OSPB cites a slowing world economy and the possibility that the tax rebates and interest rate cuts will be inadequate to maintain consumer activity. Additionally, the terrorist attacks on New York and Washington will adversely affect the travel and tourism industry, but may stimulate the advanced technology industry as businesses seek data redundancy, increased security, and high tech alternatives to business travel.

Through Fiscal Year 2000-01, Colorado's economy outpaced the national economy. However, the stagnant growth at the national level has begun to seep into Colorado's economy. The following are some of the significant indicators of the condition of the Colorado economy:

- Nonfarm employment grew 3.0 percent through July 2001 as compared to year-to-date June 2000.
- Unemployment averaged 3.3 percent in July 2001 compared with a national rate of 4.5 percent.
- The number of residential housing permits grew 10.5 percent through July 2001 compared with year-to-date July 2000. The growth was predominantly in multi-family units.
- Retail sales were up 2.4 percent through June 2001.
- Through the first six months of 2001, the Denver-Boulder-Greeley consumer price index increased 5.4 percent.

While these indicators point to a strong economy, more recent information on the state's general revenue receipts indicate that the strength may not be long lived.

Construction has been the backbone of Colorado's booming economy during much of the past decade. Increased personal wealth from the stock market combined with low mortgage rates and significant immigration have made residential construction a significant driver of Colorado's economic growth. However, overbuilding and excess inventory, recent declines in the stock market, and a lower anticipated rate of immigration all conspire for a residential building downturn. OSPB forecasts home permits slowing to 6.2 percent growth for 2001, a 10.7 percent decline in 2002, and annual declines of .4 percent through 2006.

The value of nonresidential building construction has declined since 1999. Notwithstanding, this decline, retail and manufacturing construction have shown significant increases. However, the sustainability of this growth is dubious because increases in vacancy rates for office, retail, and industrial space are also observed. The state has scheduled \$1.2 billion of transportation

infrastructure construction to begin in the fall of 2001. This should support the construction sector as the excess inventory is absorbed.

The following is the OSPB forecast for Colorado's major economic variables:

- Nonfarm employment will grow 2.8 percent in 2001 and subsequently slow to 2.4 percent before returning to an average of 2.7 percent per year.
- Unemployment will average 3.1 percent in 2001 and steadily increase to 3.7 percent by 2006.
- Wages and total personal income will increase by 9.6 and 8.2 percent, respectively, in 2001. However, on an inflation-adjusted basis, personal income growth will be a more moderate 3.1 percent.
- Immigration is expected to slow to 58,000 residents per year through 2006 after having been as high as 77,000 in recent years.
- The Denver-Boulder-Greeley inflation rate is forecasted to be 4.9 percent in 2001 and then average 3.8 percent from 2001 to 2006.

## **MAJOR GOVERNMENT INITIATIVES**

Over the upcoming years, the state's finances will be significantly impacted by actions taken by three groups during state Fiscal Year 2000-01. Those actions include ballot measures passed by the Colorado voters, laws passed by the General Assembly, and federal tax changes enacted by Congress.

The voters approved two measures affecting the state's finances. Both measures affect state revenues under Article X, Section 20 (TABOR) of the State Constitution. Amendment 23 created the State Education Fund and reduced the General Fund revenues (and the TABOR refund) by \$164.3 million in the first six months of 2001 after it became effective. The amendment will reduce Fiscal Year 2001-02 General Fund revenues by an estimated \$330.3 million. Among other provisions, the amendment requires the legislature to increase per pupil spending by at least inflation plus one percent for the next ten years and by at least the rate of inflation thereafter. The voters also passed Referendum A, which requires the state to use part of the TABOR refund to reimburse local governments for lost revenues resulting from Referendum A's reduction of qualified senior citizen's property taxes. The Office of State Planning and Budgeting estimates Referendum A will reduce the TABOR surplus by \$44 million in 2002.

In the 2001 legislative session, the General Assembly enacted five permanent tax reductions (estimated at \$7.8 million for Fiscal Year 2002-03) to lower the collection of excess revenues under TABOR. Income taxes, sales and use taxes, and insurance premium taxes were all reduced. These actions followed a number of tax reductions enacted in the 2000 and 1999 legislative sessions. The 2001 tax reductions were smaller than those passed in prior years, but they were nonetheless significant. The permanent and temporary tax changes enacted over the past three years reduce estimated taxes by approximately \$894.6 million and \$926.5 million in Fiscal Years 2001-02 and 2002-03, respectively.

Federal tax law changes, while not initiated by state government, will have a significant impact on the state's finances. OSPB estimates that the federal tax law changes will reduce state revenues by \$330 million over the next five years. This is primarily because state income tax and estate tax

revenues are calculated based on federal amounts, which will be lowered due to phased reduction of federal estate tax and increases in IRA and 401k contribution limits.

During the 2001 session, the legislature authorized the transfer of the principal balance of the Controlled Maintenance Trust Fund (approximately \$244 million) to the General Fund on July 1, 2001. The transfer was intended to preserve the diversion of General Fund sales tax revenues to the Highway Fund (see page 19) , which is terminated when the General Fund reserve or expenditures drop below the statutory limits. However, it was later determined that Fiscal Year 2001-02 revenues would not be adequate to support the Highway Fund diversion, and the diversion was terminated in the Second Extraordinary Session of the Sixty-Third General Assembly in September 2001. Current law requires \$276.4 million to be transferred from the General Fund back to the Controlled Maintenance Trust Fund on July 1, 2002.

Notwithstanding the significant tax reductions in place, the Fiscal Year 2000-01 TABOR refund decreased only 1.5 percent below the prior year to \$927.2 million. Including the \$927.2 million, the state will have refunded \$3.25 billion since it first exceeded the TABOR revenue limitation in Fiscal Year 1996-97. In addition, the state has refunded an additional \$98.2 million in excess of the TABOR requirement due to a law that sets the sales tax refund at 105 percent of the TABOR requirement.

In the 2001 legislative session, the General Assembly again addressed ways of refunding the excess TABOR revenues by altering two existing mechanisms and adding three more – bringing the total to twenty. Nearly all of the mechanisms are dependent on the total refund exceeding certain thresholds. Significant changes in population growth estimates from the 2000 census will allow the state to retain a greater share of its Fiscal Year 2001-02 revenues, and OSPB estimates the refund for that year will be \$93.2 million. Many of the thresholds are significantly above this amount, and therefore, those mechanisms would not be in effect for the Fiscal Year 2001-02 refund to be paid in 2003. As a result, any refund is likely to be made through the earned income credit and the six-tier sales tax refund. OSPB estimates the single filer refund to average \$210 in 2002 and \$22 in 2003.

In November 1999, Colorado voters approved the issuance of \$1.7 billion of Transportation Revenue Anticipation Notes (TRANs) to fund the acceleration of specific transportation projects. The Department of Transportation issued \$524.36 million of TRANs on June 1, 2000 and \$506.37 million on June 16, 2001. (See Note IV-B page 79.) The department will use future federal transportation revenues and state matching funds to pay the principal and interest on the TRANs. Additional TRANs will be issued as work progresses on the construction projects. In addition, the state continued the diversion of 10 percent of sales tax receipts from the General Fund to the Highway Fund. During Fiscal Year 2000-01, the state diverted \$197.2 million to the Highway Fund. However as noted above, future diversions to the Highway Fund have been terminated.

## **BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS**

The annual budget of the state for ongoing programs, except for federal and custodial funds, is enacted by the General Assembly. New programs are funded for the first time in the enabling legislation and continued through the Long Appropriations Act in future periods. For the most part, appropriations lapse at the end of the fiscal year unless extenuating circumstances prompt the state

controller to approve an appropriation rollforward. Capital construction appropriations are normally effective for three years.

The state records the budget in its accounting system along with federal awards and custodial funds of the various departments. Encumbrances are also recorded and result in a reduction of the budgeted spending authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders, contracts, or other commitments are fulfilled. Encumbrances in the General Fund are not reported as a reservation of fund balance unless the related appropriations are approved for rollforward to the subsequent fiscal year. Fund balance is reserved for encumbrances that represent legal or contractual obligations in the Capital Projects Fund and the Department of Transportation's portion of the Special Revenue Fund.

The state's financial records for governmental type funds are accounted for on a modified accrual basis with the revenues recorded when available and measurable, while expenditures are recorded when goods or services are received or a liability is expected to be liquidated from current available resources. The state maintains proprietary and fiduciary fund type accounting records on the full accrual basis. That is, revenues are recorded when earned, and expenses, including depreciation, are recorded when incurred.

In developing the state's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets.

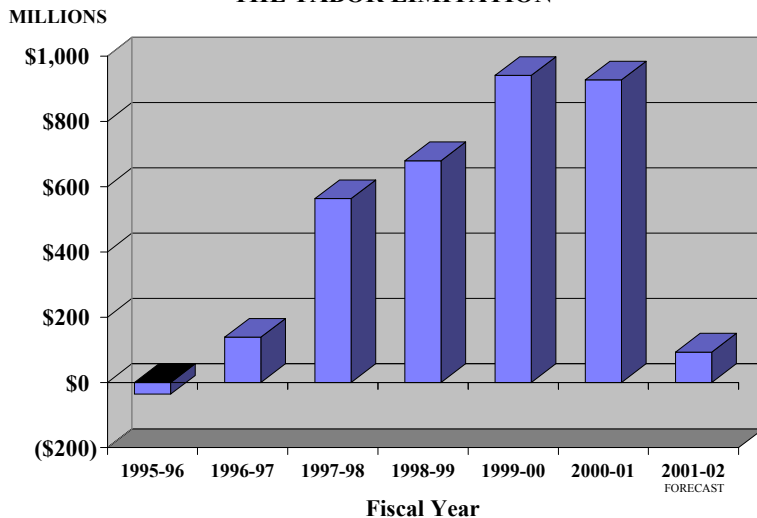
The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. We believe that the state's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

## **FINANCIAL OVERVIEW**

Fiscal Year 2000-01 is the eighth year of state operations under the TABOR revenue limitations (Article X, Section 20 of the State Constitution). With certain exceptions, the rate of growth of state revenues is limited to the combination of the percentage change in the state's population and inflation based on the Denver-Boulder CPI-Urban index. The exceptions include federal funds, gifts, sales of property, refunds, damage recoveries, transfers, and qualified enterprise fund revenues.

Revenues collected in excess of the limitation must be returned to the citizens unless a vote at the annual election in November allows the state to retain the surplus. TABOR also limits the General Assembly's ability to raise taxes and borrow money. With the exception of a declared emergency, taxes can only be raised by a vote of the people at the annual election. Multiple year borrowings can only be undertaken after approval by a vote of the people at the annual election.

### NON-EXEMPT REVENUES OVER (UNDER) THE TABOR LIMITATION



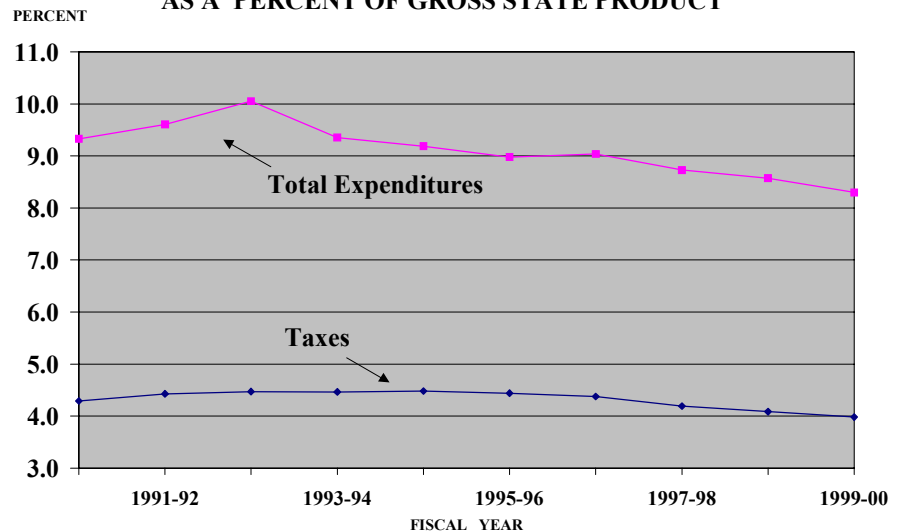
In the first three years of operation under TABOR, the state did not exceed the revenue limitation. In Fiscal Years 1996-97 through 2000-01, state revenues exceeded the TABOR limitation by \$139.0, \$563.2, \$679.6, \$941.1, and \$927.2 million, respectively. The state recorded a liability in the General Fund at June 30 for these amounts in each fiscal year. See Note II-D – Tax, Spending, and Debt Limitations in the notes to the financial statements for additional details.

Notwithstanding the tax reductions discussed above, the Office of State

Planning and Budgeting forecasts revenues greater than the TABOR amendment allows. However, the excess revenue is expected to be significantly lower due to an adjustment to the limit related to revisions of the population growth estimates.

TABOR controls state revenues by limiting their growth to the sum of inflation plus population increases. If, however, the state's economy grows at a rate above the percentage change in inflation and population then state revenues become a smaller percentage of Gross State Product (GSP). The chart at left shows the trend of state expenditures and tax revenues as a portion of GSP.

### STATE EXPENDITURES AND TAX REVENUE AS A PERCENT OF GROSS STATE PRODUCT



This chart demonstrates several important points:

- State expenditures as a portion of GSP expand and contract even when tax revenues remain stable.
- Over the period covered by the graph, state tax revenues have remained between 3.98 and 4.29 percent of GSP. Federal revenues, which are primarily grants, and cash revenues, which are primarily exchanges for goods or services, funded much of the variation in state expenditures.
- The increase in total expenditure percentage between 1991 and 1993 was primarily the result of healthcare inflation under the Medicaid mandate and distributions to school districts to relieve local property tax burdens. The former was funded partially by federal



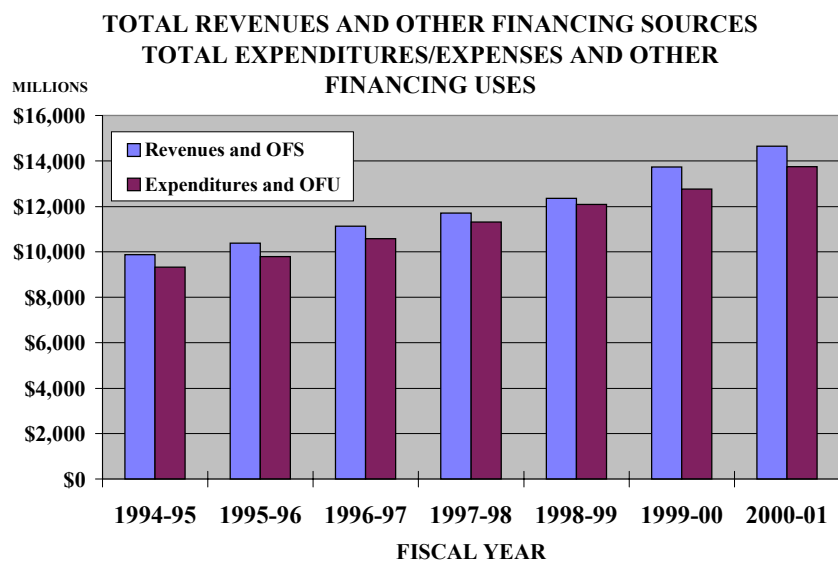
revenue and partially by general-purpose tax revenue, while the latter was funded primarily by general-purpose tax revenues. Neither required a tax increase.

- General tax revenue at 3.98 percent of GSP is at its lowest level in the period covered by the chart.

It is anticipated that state tax revenues will continue to decline relative to the GSP as long as the state's economy expands. If the economy were to contract abruptly, state revenues could rise as a percentage of the GSP in the short term. However, without a tax increase or retention of the TABOR surplus (both require a vote of the people), the long-term trend would remain downward.

The current combined balance sheet for the state's primary government shows total assets of \$17,683 million and liabilities of \$5,992 million. Under current accounting principles, this difference of \$11,691 million is the financial equity that the citizens of Colorado have in their state government. The state's current accounting practices do not include the recording of infrastructure on the state's books. Thus, the recorded equity is exclusive of such assets as highways, bridges, and parks. Similarly, there is no recording of the estimated cost to maintain those assets.

Total revenues and other financing sources for the primary government, excluding operating transfers-in and excess TABOR revenues, were \$14,657 million and \$13,738 million in Fiscal Years 2000-01 and 1999-00, respectively. In Fiscal Year 1999-00, the amount shown includes bond proceeds of \$539.2 million from Transportation Revenue Anticipation Notes (TRANs) issued by the Department of Transportation. Total expenditures/expenses and financing uses, excluding operating transfers-out were \$13,743 million and \$12,762 million in Fiscal Years 2000-01 and 1999-00, respectively.



For Fiscal Year 2000-01, various fund equity accounts changed from the beginning of the fiscal year due to differences between revenues, other financing sources, transfers-in, and expenditures, other financing uses, and transfers-out. The equity of the governmental fund types had a net increase of \$459.0 million primarily due to a General Fund decrease of \$228.7 million, a Special Revenue Fund increase of \$702.1 million, and a Capital Projects Fund decrease of \$18.1 million. The General Fund decline occurred primarily because general-purpose revenue growth was inadequate to cover increased spending and because \$164.3 million was diverted to the State Education Fund by Amendment 23. The increase in the Special Revenue Fund was primarily related to the TRANs issued by the Highway Users Tax Fund. The Special Revenue Funds also increased by \$168.8 million and \$48.1 million due to tax receipts and investment earnings of the State Education Fund and Labor Fund, respectively. The decrease in the Capital Projects Fund was the result of project expenditures exceeding transfers-in from the General Fund. The

combined fund equities of the colleges and universities increased by \$282.7 million primarily related to increases in capital assets recorded in the Plant Funds. In addition, Higher Education revenues and transfers from the state exceeded increases in spending by \$38.7 million. The Trust Fund equity increased by \$322.6 million. These funds are not available for state programs, and several factors contributed to the increase including:

- \$159.3 million increase in investments held for the Colorado Compensation Insurance Authority in an Investment Trust Fund due to participant additions and investment earnings,
- \$30.5 million increase in the State Lands from investments and rent,
- \$54.9 million increase in the Tobacco Litigation Settlement Trust Fund from contributions and investment income,
- \$48.6 million decrease in the Deferred Compensation Plan due to investment losses,
- \$34.9 million increase in the Scholar's Choice Fund from participant purchases.

## **GENERAL FUND ACTIVITIES**

The General Fund is the focal point in determining the state's financial position. This fund accounts for all revenues and expenditures that are not required by law to be accounted for in other funds. Revenues of the General Fund consist of two broad categories, general-purpose revenues and augmenting revenues. General-purpose revenues are taxes, fines, and other similar sources that are raised without regard to how they will be spent. Augmenting revenues consist of federal funds, transfers-in, cash fees and charges, or specific user taxes. Augmenting revenues are usually restricted as to how they can be spent.

The revised budget frequently varies from the original budget for several reasons. The departments submit their request for original budget about eight months in advance of the fiscal year. Therefore, conditions may have changed during the time the legislature evaluates and finalizes the original budget. In addition, mandated programs may have overruns beyond the department's control. When such overruns are anticipated, the legislature may enact a supplemental bill increasing the department's budget. Supplemental bills may also reduce a department's budget. In Fiscal Year 2000-01, the following significant variances occurred between original and revised general funded budget. (See page 34.)

- The Department of Corrections revised budget was \$2.8 million more than the original budget due to a supplemental appropriation to pay for increasing health care needs of an aging inmate population experiencing increasingly severe illnesses.
- The Department of Education revised budget was \$3.8 million less than the original budget due to several factors. Senate Bill 01-181 increased spending authority by \$.97 million for actual emergencies identified. Senate Bill 01-212, and others, decreased general fund spending authority a net amount of \$6.9 million primarily due to the legislature's identification of additional cash fund sources to use in funding the school finance program. The two bills mentioned also reduced general funding by \$1.1 million related to actual claim data submitted by local school districts under the program known as School Finance – Locally Negotiated Business Incentive Agreements. The Department's original budget

increased by \$3.0 million due to a rollforward of Fiscal Year 1999-00 spending authority for the Colorado Student Assessment Program.

- The Department of Health Care Policy and Financing revised budget exceeded the original budget by \$26.9 million primarily due to a legislative supplemental for increased medical services costs and a budget transfer from the Department of Human Services for Medicaid matching funds. The Medicaid program expenditures are mandated for the receipt of related federal funds.
- The Department of Human Services original budget exceeded the revised budget by \$7.8 million primarily due to the above-mentioned transfer to the Department of Health Care Policy and Financing for Medicaid matching funds.
- The Department of Revenue revised budget exceeded the original budget by \$3.9 million primarily due to the following supplemental appropriations. Spending authority was increased \$.7 million to fund court ordered backpay to revenue agents and \$.8 million to cover unanticipated increases in the number of driver's license documents issued. The Department also received a \$2.6 million supplemental appropriation to replace existing motor vehicle license plates.

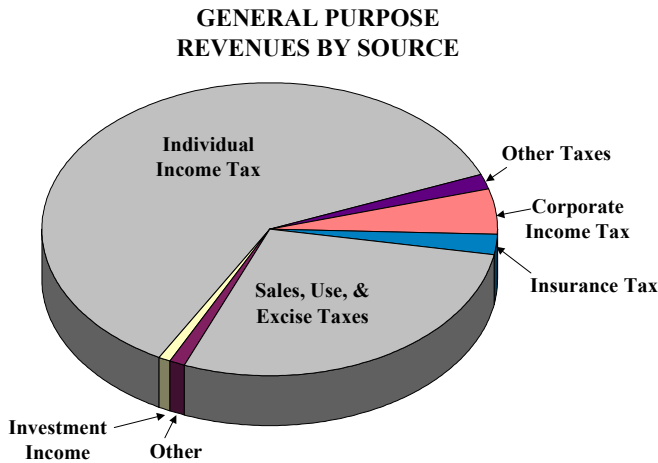
In Fiscal Year 2000-01, the following significant variances occurred between the revised general funded budget and the actual expenditures:

- The Department of Corrections actual general funded expenditures were \$6.1 million less than its revised budget primarily because the growth in inmate population was less than estimated. This resulted in lower costs for all inmate services especially in the anticipated payments to house state prisoners in private facilities.
- The Department of Education actual general funded expenditures were \$3.1 million less than the revised budget primarily due to a \$2.7 million approved rollforward for contracts and purchase orders to be filled in Fiscal Year 2001-02. The remaining difference was primarily due to the absence of legitimate claims to be paid under the Education Reform and Incentive Awards Programs for school districts.
- The Department of Health Care Policy and Financing general funded expenditures exceeded the revised budget by \$6.4 million primarily because Medicaid is an entitlement program, and the department is required to pay for the services provided to qualified clients. Because of this requirement, the department is statutorily allowed unlimited Medicaid overexpenditures. The \$6.4 million amount is not the same as reported in Note II-C of the General Purpose Financial Statements because it is combined with other line items where the revised budget exceeded actual expenditures.
- The Department of Revenue expenditures were \$6.2 million less than its revised budget. The largest single portion of this variance (\$5.1 million) occurred because the anticipated payments to individuals under the Old Age Heat Fuel Property Tax Program were less than expected due to increased individual earnings in the strong economy. The Department also experienced about \$.34 million of vacancy savings due to difficulties in recruiting employees for its information technology and motor vehicle programs.

In Fiscal Year 1997-98, the state began allocating 10 percent of the General Fund sales and use tax revenues to the Highway Users Tax Fund (HUTF). These revenues, which amounted to \$154.6,

\$170.4, \$188.9, and \$197.2, million in Fiscal Years 1997-98 through 2000-01, respectively, are no longer recorded as general-purpose revenues.

General-purpose revenues for Fiscal Years 2000-01 and 1999-00 were \$6,355 million and \$5,623 million, respectively, on the budgetary basis. Sales, use, and excise taxes increased by \$34.2 million

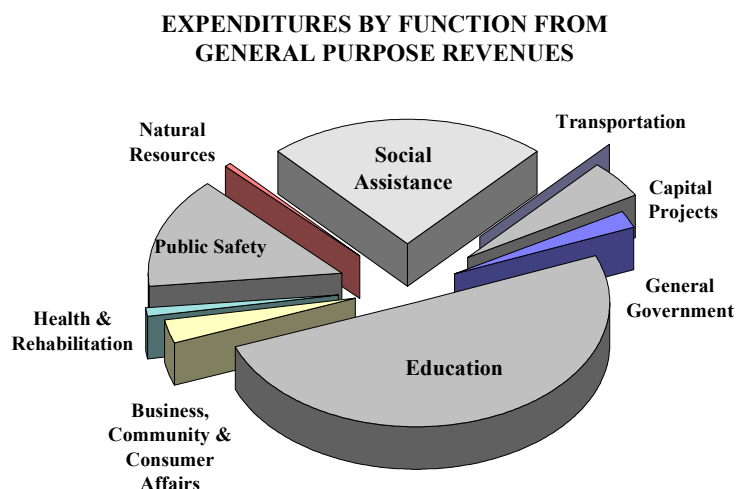


or 1.9 percent, and individual income taxes increased by \$148.7 million or 4.0 percent. In addition, corporate income tax increased by \$27.2 million or 9.4 percent, and other taxes (primarily estate and gaming taxes) increased by \$25.4 million or 28.8 percent. These increases demonstrate the continued strength of the Colorado economy through most of the year and the related increases in personal income. Other Revenues decreased by \$11.3 million or 15.5 percent primarily due to a change in the state's Medicaid Disproportionate Share Hospital program. The state no longer receives revenue that the hospitals formerly provided as

a match for federal Medicaid expenditures. In addition, there was a reduction in other revenues related to accounts payable estimates from the prior year that did not need to be paid.

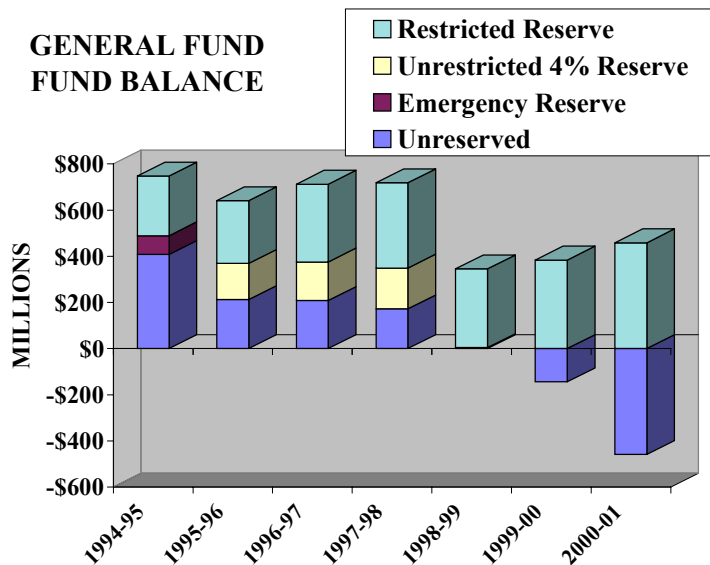
On the budgetary basis and excluding the TABOR refund, total expenditures and transfers-out funded from general-purpose revenues during Fiscal Years 2000-01 and 1999-00 were \$5,739.0 million and \$5,318.0 million, respectively, a 7.9 percent increase (see page 95). The total annual increase in general funded expenditures is limited to six percent over the previous year with certain adjustments. The primary adjustments are for changes in federal mandates and lawsuits against the state. This limitation is controlled through the legislative budget process.

The Departments of Education, Health Care Policy and Financing, Higher Education, and Human Services accounted for approximately 77.8 percent of all Fiscal Year 2000-01 general funded expenditures. Of the departments with substantial general funded expenditures, the most significant increases were in the Department of Education (\$102.0 million, 5.0 percent), Department of Health Care Policy and Financing (\$77.0 million, 8.1 percent), Department of Human Services (\$44.1 million, 8.6 percent), and the Department of Corrections (\$36 million, 9.4 percent). The Department of Education increase was primarily related to inflation and growth in local public schools under its main program – School Finance. The increase in Department of Health Care Policy and Financing was primarily related to growth in the existing Medicaid program; however, the department also



received approximately \$18 million in new programs appropriations related to the tobacco settlement. The Department of Human Services increase was primarily related to replacing federal funds available only in the prior year (\$20.2 million), cost of living increases in the Child Welfare Services program (\$6.6 million) and the Family and Children's Programs (\$3.1 million), and a transfer to the Family Issues Cash Fund (\$5.9 million). The Department of Corrections increase was the result of opening the Sterling Correctional Facility and general increases in inmate population and related costs. In addition, the Department of Local Affairs (DOLA) general fund expenditures decreased \$27.2 million or 72.1 percent. Several programs related to economic development were transferred from DOLA to the Governor's Office, where general funded expenditures increased \$13.9 million or 236.1 percent. The Youth Prevention and Intervention Program was transferred from DOLA to the Department of Public Health and Environment where general funded expenditures increased \$9.8 million or 41.1 percent.

The "Unreserved – Undesignated" title, in the fund equity section of the General Fund on the *Combined Balance Sheet – All Fund Types and Account Groups*, normally represents the accumulated unexpended net general-purpose revenues. For the current fiscal year, the amount shown is a negative \$457.9 million. This \$314.0 million increase in the deficit over the prior year is the result of expenditures exceeding revenues. It includes the \$927.2 million TABOR refund as a reduction of revenue, which for GAAP purposes is recognized in the year the excess revenues are collected or accrued. However, because the TABOR refund declined from the prior year by \$13.9 million, it did not contribute to the increase in the deficit. The restricted cumulative unexpended net augmenting revenues are represented as "Reserved for Statutorily Specified Amounts." Augmenting revenues of the General Fund were \$2,763 million and \$2,524 million in Fiscal Year 2000-01 and 1999-00, respectively. Federal grants and contracts made up 84.6 percent and 86.4 percent of this amount in each respective fiscal year. The remainder is cash funds, which consist of revenues of specific programs that are statutorily restricted.



During Fiscal Years 1993-94 and 1994-95 a portion of the General Fund fund balance was reserved for emergencies as required by Article X, Section 20 (TABOR) of the State Constitution. Beginning with Fiscal Year 1995-96, a portion of the fund balance of the Controlled Maintenance Trust Fund is designated by the legislature as the TABOR emergency reserve.

Beginning in Fiscal Year 1995-96, the state controller reserved an amount equal to the statutorily required four percent of General Fund appropriation. Before that, the four-percent reserve was determined during the appropriation process, but it was not formally recognized in the financial statements. In Fiscal Year 2000-01, the required reserve was \$213.67 million; however, no funds were available for this reserve on the generally accepted accounting principle basis. Legal

compliance was achieved on the budgetary basis because the Fiscal Year 2000-01 TABOR refund of \$927.20 million will not be recognized until it is paid in Fiscal Year 2001-02.

## **PROPRIETARY OPERATIONS**

Proprietary type funds are accounted for using the full accrual basis of accounting, as would a private business. These operations have many of the attributes of a business in that their revenue relates to the provision of goods or services to the state or to the public. Proprietary funds consist of enterprise funds that provide services to the citizens of the state, and internal service funds that provide services to the state government. Capital investments of these operations are recorded within the fund and depreciation is recorded using methods similar to private enterprise.

The Colorado Student Obligation Bond Authority (CSOBA) became a state agency on July 1, 2000. The inclusion of this activity resulted in a \$78.8 million adjustment to the beginning fund equity of the proprietary operations reported in the state's financial statements. CSOBA issues tax exempt and taxable bonds and uses the proceeds to originate and purchase loans for postsecondary education students. CSOBA also operates a prepaid tuition program that allows citizens to purchase units of average tuition to be used at maturity to pay eligible expenses at colleges and universities throughout the United States. CSOBA had approximately \$866.5 million of assets and \$681.1 million of notes and bonds payable at June 30, 2001.

Total fund equity for the proprietary funds at June 30, 2001 and June 30, 2000, was \$215.0 million and \$115.5 million, respectively – an increase of \$20.8 million not including the \$78.8 million beginning balance adjustment for CSOBA. This increase occurred mainly in the CSOBA enterprise fund (\$9.6 million), the Telecommunications internal service fund (\$3.1 million), and the State Employees and Officials Insurance internal service fund (\$4.4 million). Operating revenues for the proprietary operations were \$767.6 million for Fiscal Year 2000-01 and \$690.0 million for Fiscal Year 1999-00. Operating expenses were \$672.7 million and \$602.5 million, respectively. During Fiscal Year 2000-01, the major transfers from the Lottery Fund were \$31.7 million to the Conservation Trust Fund and \$7.9 million to the Wildlife Fund. In addition, the Lottery Fund distributed \$39.6 million of net proceeds to the Great Outdoors Colorado Trust Fund, a related party that is a constitutionally created public authority.

## **DEBT ADMINISTRATION**

The State Constitution prohibits the state from incurring any general obligation debt. However, the state issues revenue anticipation notes to meet short-term cash needs (see Note VI-A page 92) and certificates of participation under a master lease agreement to finance some capital projects. In addition, many higher education institutions have issued bonds and notes with revenues pledged from specific user payments to retire these bonds and notes. On April 17, 2001, The Colorado Department of Transportation issued Transportation Revenue Anticipation Notes, Series 2001 (TRANs) in the amount of \$506.4 million. The TRANs are payable solely from certain federal and state funds annually allocated by the State Transportation Commission. Before the November 1999 general election, the Colorado Supreme Court determined that the TRANs do not constitute general obligation debt of the state. Additional information regarding the TRANs is provided in the footnotes

to the general-purpose financial statements and the statistical section. (See Note IV-B page 79 and Statistical Section page 158.)

## RISK MANAGEMENT

The state self-insures its agencies, officials, and employees against the risk of loss related to general liability, motor vehicle liability, and workers' compensation. Property claims are not self-insured, as the state has purchased insurance. The state uses the General Fund and the General Long-Term Debt Account Group to account for the risk management function including operations and all claims or judgments except employee medical claims. (See Notes I-E page 53, IV-C page 81, and IV-E page 83.) Medical claims for officials and employees are managed through the State Employees and Officials Insurance Fund, an internal service fund. The Regents of the University of Colorado are self-insured for workers' compensation, auto, general, and property liability.

## CASH MANAGEMENT

Statutes permit the state treasurer to invest cash not immediately needed to pay obligations of the state. These investments may consist of obligations of the United States, commercial paper of prime quality, repurchase agreements, bank acceptance agreements, and other investment instruments. The state treasurer also invests funds of the Colorado Water Resources and Power Development Authority, a component unit, and the Great Outdoors Colorado Trust Fund, a related party. Both are accounted for in the treasurer's agency funds. At June 30, 2001, the state treasurer held the following investments at fair value:

Investment Type	Amount in Millions
United States Treasury and Agencies	\$ 1,813.9
Asset Backed Securities	717.0
Corporate Bonds	920.9
Commercial Paper	408.5
Mortgages	478.9
Bankers' Acceptance	49.6
Other	186.9
Total	<u>\$ 4,575.7</u>

Included above is \$912.4 million belonging to the Colorado Compensation Insurance Authority, a related party, that the state treasurer maintains in a separate investment trust fund. The financial statements of that fund are included in this report.

## **INDEPENDENT AUDIT**

The audit of the General Purpose Financial Statements was performed by the state auditor. The opinion of the auditor is on page 28 of this report preceding the financial statements. Besides auditing of the statewide financial statements, the auditor will from time to time audit the financial statements and operations of various departments and institutions within state government.

In 1996, the United States Congress amended the Single Audit Act of 1984. The amended act clarifies the state's and the auditor's responsibility for ensuring that federal moneys are used and accounted for properly. Under the requirements of this act, transactions of major federal programs are tested. The state prepares a Schedule of Expenditures of Federal Awards for inclusion in the state auditor's Statewide Single Audit Report. The state auditor issues reports on the schedule, the financial statements, internal controls, and compliance with the requirements of federal assistance programs.

## **CERTIFICATE OF ACHIEVEMENT**

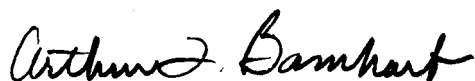
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Colorado for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **ACKNOWLEDGMENTS**

In conclusion, I thank my staff and the staffs of all the state departments and institutions whose time and dedication have made this report possible. I reaffirm our commitment to maintain the highest standards of accountability in financial reporting.

Sincerely,

A handwritten signature in black ink that reads "Arthur L. Barnhart". The signature is written in a cursive, flowing style.

Arthur L. Barnhart  
State Controller